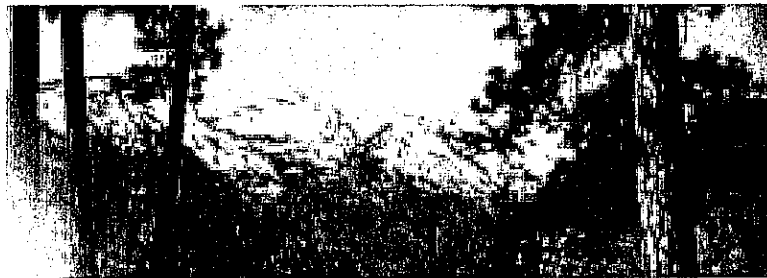


# Impact Fee Feasibility Analysis

*Prepared for*



FEBRUARY 9, 2006

*Prepared By*

**TischlerBise**  
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## —EXECUTIVE SUMMARY—

TischlerBise, Inc., a fiscal, economic and planning consulting firm, was hired to evaluate the feasibility of impact fees in Ravalli County under the new Montana Impact Fee SB 185. TischlerBise has prepared over 500 impact fees nationally, none of which have been litigated in court. TischlerBise's public sector Montana impact fee clients include the City of Missoula, Missoula County, and Gallatin County. Paul Tischler was an expert for the private sector in the Bozeman impact fee case.

### IMPACT FEES

Impact fees are one time payments used to fund capital improvements due to new growth, and cannot pertain to operating expenses. The Montana Impact Fee SB 185 prescribes the categories, necessary steps and considerations in developing impact fees. Because the Act requires capital improvements to have a useful life of 10 years or more, police/sheriff cars and ambulances are excluded. More specifics about the requirements and the three methodologies are discussed in the report.

### GROWTH AND REVENUE ISSUES

Growth issues include the relatively rapid growth in the northern part of the County. It is likely that these new residents will demand higher levels of service since they are relocating from more urban areas.

The revenue issues are that the County has insufficient revenues to maintain and provide existing levels of service, particularly capital facilities. An example of this is that the County has no capital improvements program (CIP). The State has limitations on revenue increases and these are a major constraint in allowing revenues to increase to an adequate level. Therefore it is highly unlikely that most new and existing development is paying its way.

### RAVALLI COUNTY IMPACT FEE CATEGORIES

Of the three eligible impact fee categories that do not require a unanimous vote by the Board of County Commissioners (BOCC), TischlerBise recommends against impact fees for transportation, fire protection/emergency response services, and a conditional yes to law enforcement (sheriff). Transportation and fire have other mechanisms available to fund capital facility expansion. The sheriff category is recommended once a preliminary capital facility space plan is prepared in order to provide a cost basis for the fee. This is discussed in further detail in the body of this report.

Three potential impact fee categories require unanimous approval by the BOCC. These are county buildings, parks and recreation and public schools. As with law enforcement (sheriff), the county buildings impact fee category is a good candidate once a preliminary capital facility space plan is prepared. Parks and recreation have their own revenue sources.

The Florence public school district could be a good candidate, as discussed further in this report.

#### POTENTIAL IMPACT FEE REVENUES

It is not the purpose of this feasibility study to calculate a preliminary impact fee for any of these categories. Listed below is the potential revenue that might be accrued if the County imposed impact fees at the amount below at an assumed rate of 400 single-family units per year.

| Potential Impact Fee (Per unit) | Annual Impact Fee Revenues Based on 400 Single-Family Units per Year Countywide |
|---------------------------------|---|
| \$250                           | \$100,000   |
| \$500                           | \$200,000   |
| \$750                           | \$300,000   |
| \$1,000                         | \$400,000   |

The table below indicates the potential impact fee for the Florence School District from new growth within Ravalli County. It is assumed that three-quarters, of the 400 countywide building permits, or 300 permits building permits issued annually, are in the Florence School District. Since the school impact fee, which could be justified, is likely to be higher than the two County General Fund Impact Fee activities of law enforcement (sheriff) and county buildings, the example figures shown are higher than in the previous table.

| Potential Impact Fee (Per unit) | Annual Impact Fee Revenues Based on 300 Single-Family Units per Year in the Florence School District |
|---------------------------------|--|
| \$2,000                         | \$600,000  |
| \$3,000                         | \$900,000  |
| \$4,000                         | \$1,200,000  |
| \$5,000                         | \$1,500,000  |
| \$6,000                         | \$1,800,000  |
| \$7,000                         | \$2,100,000  |

## NEXT STEPS

Before pursuing impact fees for law enforcement (sheriff) and county buildings, a preliminary feasibility space study with related costs should be completed. This will present a more realistic picture of what type of commitment might be needed by the County in order to pursue these categories and that might benefit both existing and new residents (realizing that a CIP would need to be adopted). Impact fees would pay for new growths fair share of capital improvements. The school impact fee for the Florence school district should be pursued, especially if there is a similar sentiment by the Missoula County BOCC.

Another important consideration is the need to ensure that all new growth pays an impact fee. Without the assurance that all new growth pays an impact fee, the proportionality issue will not be met. The County should make sure that a mechanism is in place to ensure this if it pursues the calculation of impact fees.

TischlerBise will provide a scope of services and costs upon request.

## —IMPACT FEES—

### MONTANA IMPACT FEE ACT

Major points regarding the Montana Impact Fee Act (Act) are noted; generally in the order as presented in the Act.

One important constraint is that any equipment included must have a useful life of 10 years or more. This precludes important assets such as sheriff cars and other rolling stock in many cases.

The definition of an impact is "any charge... to fund the additional service capacity required by the development from which it is collected".

A positive aspect of the Act is that the jurisdiction may collect an administrative fee "not to exceed five percent of the total impact fee collected".

A very important part of the Act is the limitation on the public facilities included. The eligible public facilities are water, wastewater, stormwater, transportation, police (sheriff), emergency medical rescue, and fire protection facilities. Since the County is not currently in the water, wastewater, or stormwater "business", the only remaining applicable impact fee categories are transportation and sheriff, emergency medical services and fire.

Other facilities can be included "for which documentation is prepared as provided ... that have been approved as part of an impact fee ordinance or resolution by a *unanimous vote* of the Board of County Commissioners (BOCC) of a county government". In this report the transportation, sheriff (police) and fire categories are discussed prior to other potential fee requiring a unanimous vote of the BOCC of a county government.

The documentation for impact fees must include a description of existing conditions of a facility, level of service standards, forecast the future needs, and determination of relevant service areas. It is important to note that the methodology of resulting fees "exclude operations and maintenance costs and correction of existing deficiencies from the impact fee."

An important requirement is that the County will need to adopt a budget which has a component that "(i) schedules construction of public facility capital improvements to serve projected growth; (ii) projects costs of the capital improvements; (iii) allocates collected impact fees for construction of the capital improvements; and (iv) covers at least a 5-year period and is reviewed and updated at least every 2 years". It is our opinion that *the adoption of impact fees by the BOCC will require the adoption a CIP that is consistent with calculated impact fees.*

The Act states that, "An impact fee must meet the following requirements: The amount of the impact fee must be reasonably related to and reasonably attributable to the development's share of the cost of infrastructure improvements made necessary by the new development. The impact fees imposed may not exceed a proportionate share of the costs...The following factors must be considered in determining a proportionate share of public facilities capital improvements costs: (i) the need for public facilities capital

improvements required to serve new development; and (ii) consideration of payments for system improvements reasonably anticipated to be made by or as a result of the development in the form of user fees, debt service payments, taxes, and other available sources of funding the system improvements. Costs for correction of existing deficiencies in a public facility may not be included in the impact fee. New development may not be held to a higher level of service than existing users unless there is a mechanism in place for the existing users to make improvements to the existing system to match the higher level of service. Impact fees may not include expenses for operations and maintenance of the facility”.

In discussing the expenditures of impact fees, the Act states that the fees must be paid no earlier than the date of issuance of a building permit if a building permit is required for the development or no earlier than the time of wastewater or water service connection or well or septic permitting”. The County will need to implement a building permit or similar mechanism to ensure that all new growth pays the appropriate impact fee.

The County may “recoup costs of excess capacity in existing capital facilities, when the excess capacity has been provided in anticipation of the needs of new development”.

An impact fee advisory committee must be established and must include “at least one representative of the development community and one certified public accountant. The committee shall review and monitor the process of calculating, assessing, and spending impact fees”. It is important to note that the committee is “in an advisory capacity to the governing body of the governmental entity”; it does not have veto power.

## METHODOLOGIES

There are three typical methodologies that can be applied in the calculation of impact fees. These are the plan-based, incremental expansion and cost recovery approaches. The plan-based approach is usually based on a master plan or facility study that indicates the future facility needs over a certain time frame to service certain population thresholds. The incremental expansion approach reflects the methodology in which capital items are added incrementally to meet growth. The cost recovery methodology is used when the jurisdiction has already oversized capital facilities from which new growth will benefit.

Regardless of the methodology, a consideration of “credits” is integral to the development of a legally valid impact fee methodology. There is considerable confusion among those who are not immersed in impact fee law about the definition of a credit and why it may be required.

There are, in fact, two (2) types of “credits” each with specific, distinct characteristics, but both of which should be addressed in the development of impact fees. The first is a credit due to possible double payment situations. This could occur when contributions are made by the property owner toward the capital costs of the public facility covered by the impact fee. The second is a credit toward the payment of an impact fee for dedication of public sites or improvements provided by the developer and for which the impact fee is imposed.

## —GROWTH AND REVENUE ISSUES—

### GROWTH ISSUES

Ravalli County is continuing to grow at a rate of approximately 400 residential units per year. The table below indicates the projected rapid growth for the County. Most of these units are in subdivisions and are in the northern third of the County. Many of these residents are from more urban areas and expect higher levels of service. Since many of the residents are commuting into Missoula County, Ravalli County will not be the beneficiary of many non-retail jobs. As discussed further in the next section, the County is in need of pursuing additional revenue sources to meet the needs of these new residents. Impact fees might be an important revenue source to help the address the capital facilities needs to serve new growth.

Population for Ravalli County <sup>1</sup>

| <i>Year</i> | <i>Ravalli County</i> |
|-------------|-----------------------|
| 2000        | 30,070                |
| 2005        | 41,110                |
| 2010        | 45,730                |
| 2015        | 50,220                |
| 2020        | 54,640                |
| 2025        | 59,050                |

1. Processed by the Census and Economic Information Center, Montana Dept. of Commerce, Helena, (406) 841-2740 with permission from NPA Data Services, Inc., Arlington, VA (703 979-8400).

The long-term fiscal viability depends on a good distribution of jobs to include both service and white-collar positions. This in turn is dependent on the perceived quality of life for the jurisdiction. Providing quality services, including General Fund activities and education, are an important part of this equation. Requiring building permits will help assure quality construction of all types of development. A longer-term issue regards septic and well water as development and density increase in certain areas of the County.

### REVENUE ISSUES

The County has insufficient revenues to provide adequate services. The County has no formal capital improvements program (CIP). The lack of a CIP is due to the fact that the County does not have sufficient monies to spend on the capital facilities. At present time the money in the CIP account is approximately \$200,000. It is acknowledged by virtually all of



the people interviewed that the level of service for a number of County activities is inadequate.

The reason for this insufficient revenue situation is that there are simply not enough revenues that can expand sufficiently to maintain existing levels of service, let alone increase a number of services. A major reason for this lack of revenues is the revenue restrictions placed on all jurisdictions in the state of Montana. The tax revenues of existing development cannot increase beyond the cost of living index. Unfortunately, the costs of energy, health, as well as construction materials have increased dramatically over the last several years and are likely to exceed the rate of inflation in the future. As a result, the County will have to either raise revenue rates of the few revenues that are independent of this restriction or find new revenue sources. The County is at the limit on some of these revenues, such as the motor vehicle tax.

An impact fee is one new source of revenues that could generate at least \$400,000, assuming that a \$1,000 impact fee is applied against 400 new units annually. This amount is more than the total current capital improvement program for existing and new capital facilities. Therefore it would be a significant revenue source even at the \$1000 per new house level. However, as noted earlier, a CIP reflecting capacity expansion will be required for the relevant services for which impact fees would be collected.

## —RAVALLI COUNTY IMPACT FEE CATEGORIES—

In recommending which impact fee categories should be further pursued, an important consideration is whether the particular category has additional revenue sources other than the County General Funds.

### SECTION I

Section I will discuss the three allowable impact fee categories that do not require a unanimous vote by the BOCC: transportation, fire/EMS services and law enforcement.

#### A. TRANSPORTATION

The County currently derives one-time road revenues through the subdivision process through a "RATA" system. According to the County subdivision regulations, a subdivision of 21 or more units "shall acquire all proper easements, and all roads (county or private), within and leading to the subdivision along the primary route of access shall be brought to County standards for new construction from the nearest County standard road, which meets the County standards for new construction over its length that lies in the primary access routes to the subdivision". "Where a subdivision is accessed by a substandard County road(s), the developer shall contribute to the County an amount equal to the pro-rata share of the improvements necessary to bring said road(s) up to the County's road standards as described by the County adopted standards over its relevant length. Pro-rata funds will be deposited in an account for the road greater district in which the subdivision is located, and will be utilized only for road within that district". There are five road greater districts. Road greater districts relate to defined geographic areas, which ensures that the use of the pro-rata funds will benefit the developments that are the sources of the funds.

The County currently has no Capital Improvement Program (CIP) for roads. The three primary types of roadway management projects that have been identified are preservation, safety, structural improvements and expansion. Based on discussions with County staff, the first two will be most prevalent. The first formal policy will be a pavement management-roadway management program reflecting a 7-year operating program anticipated to be approved by the County in the next several months. The policy "will provide guidance to the Road and Bridge Department in the selection, design and management of the County roadways proposed for inclusion in the schedule".

TischlerBise recommends against transportation impact fees at this time. The County currently has an important revenue source, the pro-rata system, which addresses the most important types of projects of preservation, and safety and structural improvements. Once the County completes a CIP for roads and prioritizes the projects, a better understanding will be provided on projects that will obviously expand capacity. Once the road capacity projects that are of high priority relative to the other types of projects are identified, and funding

sources to supplement possible impact fees for these capacity projects are also identified, a revisit of the feasibility of the impacts fees for roads will be appropriate.

#### B. FIRE PROTECTION AND EMERGENCY RESPONSE SERVICES

Fire protection and emergency response services throughout the County are supplied by twelve local volunteer fire departments. These units participate in a mutual aid agreement to provide assistance to each other as required. TischlerBise recommends against the pursuit of impact fees for this category for several reasons. A major reason is that the districts have primary revenue sources that are independent of the County. The primary revenue source is the millage levy resulting in property tax revenues from new growth to finance the operations and equipment purchases. If the County were to pursue impact fees for this category, there would be different impact fee amounts for each district and the County would need to be a participant in authorizing the impact fees for each district. Operating expenses and replacement of existing apparatus and non-impact fee activities would not be appropriate.

#### C. LAW ENFORCEMENT

The last category that is allowed without requiring a unanimous vote of the BOCC is law enforcement. In the case of the County, this activity is the sheriff. The sheriff's office runs the detention center as well as provides police services throughout the County, although in a secondary role in incorporated communities. The sheriff's office also provides coroner services.

New growth will increase demand and costs to the County for the detention center, dispatch center and additional sheriff's space as appropriate. It is likely the County will build a new detention center to ease current overcrowding and also to serve new growth. New growth should pay its fair share of this new facility. The detention center will accommodate male, female and juvenile prisoners. Either as part of this building or as an additional facility, the dispatch center needs to be expanded. New growth should pay its fair share of this cost. Also it is likely that there will be need to be expansion of sheriff's building square footage, partly to serve new growth. Finally it is likely that there will be a need for a new substation in the north to allow the sheriff's department to provide more efficient use of its personnel.

Based on discussions with the County staff and the sheriff's office, TischlerBise recommends a preliminary feasibility study be conducted to determine what the possible configuration and cost would be if the concept were further delineated. This would then allow interested parties to ascertain whether the County was prepared to pursue the appropriate facilities and reflect them in a capital improvement program. A positive decision in this regard would allow the calculation of impact fees since the impact fees would need to be reflected in a capital improvement program. Once this study is complete and the County is prepared to move forward, TischlerBise recommend the preparation of a sheriff impact fee.

Since the Act requires that any equipment needs to have an active life of over 10 years, the rolling stock of the sheriff is not an eligible category. Therefore the County will have to utilize other funds to provide additional cars as well as replace vehicles over the years.

## SECTION II

Section II discusses the three allowable impact fee categories that require a unanimous vote by the BOCC: county buildings, parks and recreation and public schools.

### A. COUNTY BUILDINGS

Included in the County facilities are the airport, administrative center, fairgrounds, search and rescue building, evidence storage, courthouse, museum, road yard facility in Hamilton with shops in five other locations. Any calculation of impact fees for this category should exclude airport, fairgrounds and museum.

To adopt impact fees for this category would require the unanimous vote of the BOCC. To ascertain whether this is appropriate, the BOCC should undertake a preliminary feasibility study, similar to the one we recommend for sheriff's operations, to determine the major space needs for county buildings and facilities and related costs. It is likely that additional square footage needed to serve new growth could be accommodated in a rehabilitated courthouse. This would accommodate the County administrative activities as well as search and rescue activities.

Once the County receives the preliminary feasibility study with appropriate costs the BOCC will be better able to determine whether the County Government (and sheriff) category should be pursued since the vacating of the courthouse would be somewhat dependent on the decision regarding the sheriff activities.

### B. PARKS AND RECREATION

There are a number of different types of parks and recreation facilities in the County. In addition to the County parks, the other parks and recreation opportunities are on federal, state, public school as well as private sites. An implementation of a parks and recreation impact fee would require a unanimous vote by the BOCC.

TischlerBise recommends against an impact fee for parks and recreation impact fee. The reason for this is that there are other independent revenue sources that support most of the active park and recreation facilities. There are three established park districts with mill levies. In addition there is an aquatic district. Finally there is a Ravalli County Park Board that requires a park dedication through the subdivision process. The park dedication requirement is described in the local regulation of subdivisions and gives the County the option of accepting cash or land donation. This money may be used "to acquire, develop or maintain within its jurisdiction County parks and recreation areas".

Based on review of information and discussions with the County staff, TischlerBise recommends that in almost all cases of subdivision, the County should require cash so that it can focus on community parks, versus neighborhood and smaller parks. The County should utilize this money on selected parkland to increase the active recreation opportunities such as ball fields, for the current and new residents. The focus on community parks will allow a

compilation of dollars to be sufficient to provide some site improvements. The mill levies in respective districts could then be used to maintain and operate the parks.

### C. PUBLIC SCHOOLS

For school impact fees to be imposed there would need to be unanimous approval from the BOCC. It is likely that the school impact fee would be the most expensive of any of the fee categories discussed, with a justifiable cost likely to exceed \$5,000 if fully implemented. An expression of interest was provided by the Florence School District. It was agreed by all parties at the onsite meeting that before school impact fees are further pursued by Ravalli County BOCC, there should be an understanding of whether similar sentiment exists in Missoula County since the school district does incorporate both jurisdictions. This does not negate the other benefits of a school impact fee study since it will show new growth's fair share of capital improvements (the cost of providing a student seat by type of school in the district).

## —POTENTIAL IMPACT FEE REVENUES—

It is not the purpose of this feasibility study to calculate a preliminary impact fee for any of these categories. Listed below is the potential revenue that might be accrued if the County imposed impact fees at the amount below at an assumed rate of 400 single-family units per year.

| Potential Impact Fee<br>(Per unit) | Annual Impact Fee Revenues Based<br>on 400 Single-Family Units per Year<br>Countywide |
|------------------------------------|---|
| \$250                              | \$100,000   |
| \$500                              | \$200,000   |
| \$750                              | \$300,000   |
| \$1,000                            | \$400,000   |

The table below indicates the potential impact fee for the Florence School District from new growth within Ravalli County. It is assumed that three-quarters, of the 400 countywide building permits, or 300 permits building permits, issued annually are in the Florence School District. Since the school impact fee, which could be justified, is likely to be higher than the two County General Fund Impact Fee activities of law enforcement (sheriff) and county buildings, the example figures shown are higher than in the previous table.

| Potential Impact Fee<br>(Per unit) | Annual Impact Fee Revenues Based<br>on 300 Single-Family Units per Year<br>In the Florence School District |
|------------------------------------|--|
| \$2,000                            | \$600,000  |
| \$3,000                            | \$900,000  |
| \$4,000                            | \$1,200,000  |
| \$5,000                            | \$1,500,000  |
| \$6,000                            | \$1,800,000  |
| \$7,000                            | \$2,100,000  |

### —NEXT STEPS—

Before pursuing impact fees for law enforcement and county buildings a preliminary feasibility space study with related costs should be completed. This will present a more realistic picture of what type of commitment might be needed by the County to pursue these categories that might benefit both existing and new residents (realizing that a CIP would need to be adopted). Impact fees would pay for new growths fair share the use capital improvements.

The school impact fee for the Florence school district should be pursued, especially if there is a similar sentiment by the Missoula County BOCC.

Another important consideration is the need to ensure that all new growth pays an impact fee. Without the assurance that all new growth pays an impact fee, the proportionality issue will not be met. The County should make sure that a mechanism is in place to ensure this if it pursues the calculation of impact fees.

TischlerBise will provide a scope of services and costs upon request.

